

KMD Brands Limited

ASX / NZX / Media announcement

19 March 2024

(All amounts in NZ\$ unless otherwise stated)

KMD Brands 1H FY24 Interim Results

KMD Brands Limited (ASX/NZX: KMD, “KMD” or the “Group”) announces its results for the six months ended 31 January 2024 (“1H FY24”).

1H FY24 financial summary (vs 1H FY23):

- Group sales decreased by -14.5% to \$468.6 million.
- Gross margin improved by 10 basis points to 58.8%.
- Operating expenses \$15.8 million below last year, down -5.7% YOY.
- Underlying EBITDA¹ \$15.1 million, down 66.8% YOY due to lower sales.
- Statutory NPAT loss -\$9.7 million; Underlying NPAT¹ loss -\$6.9 million.
- Strong balance sheet position. Net working capital -7.4% lower YOY to \$226.2 million.
- No interim dividend declared as a result of 1H FY24 operating performance.

Commenting on the 1H FY24 results, Group CEO & Managing Director Michael Daly said:

“Through the first half we continued to experience the effects of weakness in consumer sentiment. Sales were 14.5% below last year’s record result; and decreased for all three of our brands.”

“Weaker consumer sentiment, the warmest winter on record in Australia and an over-reliance on winter weight product led to a disappointing first half for Kathmandu.”

“Rip Curl and Oboz are cycling record sales last financial year, and while revenues from the direct-to-consumer channel are showing single digit declines, the wholesale channel has been more challenging for both brands as wholesale customers reduce inventory holdings.”

“In a challenging sales environment, the Group improved gross margin despite currency headwinds, controlled operating costs, and reduced working capital.”

¹ Excluding the impact of IFRS 16 and the notional amortisation of Rip Curl and Oboz customer relationships.



Group financial performance

NZ\$ million ²	Statutory	Underlying ¹		
	1H FY24	1H FY24	1H FY23	Var %
Sales	468.6	468.6	547.9	(14.5%)
Gross Profit	275.7	275.7	321.8	(14.3%)
Gross margin	58.8%	58.8%	58.7%	
Operating Expenses	(211.3)	(260.6)	(276.4)	(5.7%)
EBITDA	64.4	15.1	45.3	(66.8%)
EBIT	0.5	(1.7)	29.3	
NPAT	(9.7)	(6.9)	16.5	

Gross margin remained resilient, increasing +10 bps (+0.1% of sales), despite the realised US dollar hedged rate³ in 1H FY24 being down approximately 7% from the prior comparative period. These currency headwinds were offset by lower freight rates, improved channel mix, improved pricing, exiting low margin business, and new product introductions.

Operating costs were \$15.8 million below last year, despite continued inflation pressure. Operating expenses benefited from restructuring implemented last year and lower variable costs associated with lower sales.

Rip Curl: sales impacted by wholesale customer caution

Rip Curl	Underlying ¹		
NZ\$ million ²	1H FY24	1H FY23	Var %
Sales	278.3	306.4	(9.2%)
EBITDA	27.4	37.6	(27.0%)
EBIT	20.8	31.5	(34.0%)

Rip Curl total sales decreased -9.2% to \$278.3 million, cycling record sales last year.

Direct-to-consumer sales including online ("DTC sales") decreased by -5.0%, reflecting weakened consumer sentiment in key global markets, while noting stronger results in Europe, Asia and South America. Online sales increased by +4.3% and remain significantly above pre-COVID levels.

Wholesale sales decreased by -14.1%, as wholesale accounts reduced their inventory holdings in response to the challenging consumer environment.

In a challenging sales environment, gross margin and operating expenses were well controlled. Gross margin increased +90 bps (+0.9% of sales) reflecting improved pricing and freight rates, plus exiting low margin business in North America and Europe. Operating expenses were tightly managed despite continued inflation pressure.

² 1H FY24 NZD/AUD conversion rate 0.926 (1H FY23: 0.910), 1H FY24 NZD/USD conversion rate 0.604 (1H FY23 0.612).

³ The following exchange rates are hedged by the Group to purchase inventory: NZD/USD, AUD/USD and EUR/USD.



Kathmandu: sales reflect ongoing weakness in consumer sentiment

Kathmandu	Underlying¹			
	NZ\$ million²	1H FY24	1H FY23	Var %
Sales		152.3	194.0	(21.5%)
EBITDA		(8.3)	12.3	
EBIT		(18.0)	2.7	

Kathmandu total sales decreased -21.5%, cycling strong sales growth last year, with declines in both Australia -22.9%⁴ and New Zealand -15.9%.

Online sales decreased by -36.9% to \$16.4 million, as consumers returned to shopping in stores. Online penetration at 10.9% of DTC sales remained above pre-COVID levels. Improvement to online sales performance is a priority.

Gross margin decreased -240 bps (-2.4% of sales), driven by clearance of end of line products in August. Excluding August, gross margin for the period was -50 bps (-0.5% of sales) lower YOY despite currency headwinds.

Operating expenses were tightly managed despite continued inflation pressure.

Oboz: sales impacted by wholesale customer caution

Oboz	Underlying¹			
	NZ\$ million²	1H FY24	1H FY23	Var %
Sales		38.0	47.5	(20.0%)
EBITDA		(0.1)	2.9	
EBIT		(0.5)	2.5	

Total sales decreased -20.0%, cycling record sales last year. Wholesale sales decreased -23.5% as wholesale customers reduce their inventory holdings in response to the challenging consumer environment.

Online sales grew strongly +34.2% YOY, benefiting from strategic promotional activity.

In a challenging sales environment, gross margin and operating expenses were well controlled. Gross margin increased +450 bps (+4.5% of sales) reflecting lower freight rates, improved channel mix, improved pricing and new product introductions.

Oboz continued to invest in brand, online and product to support long-term growth objectives, including international expansion. While the North American wholesale operating margin remained below historic levels, Oboz expects the operating expense investment to be leveraged with future sales growth opportunities.

⁴ At constant exchange rates.



Balance sheet

At 31 January 2024, the Group had a net debt position of \$96.2 million with funding headroom of approximately \$190 million.

Inventory was well positioned, \$5 million below January 2023, and net working capital was \$18 million below January 2023 despite lower sales. The inventory balance at July 2024 is expected to be below July 2023. The unwind of inventory is expected to underpin traditionally strong operating cashflow generation in the second half year.

As previously communicated in the FY23 results release, the balance between interim and final dividend will be adjusted to better reflect the profitability of each half year. As a result of this change, and due to the first half performance, the Directors have not declared an interim dividend.

Outlook

First half sales trends have improved for all three brands as they begin the second half year. Group sales for February 2024 were -3.5% below last year, noting that February is not a significant trading month.

Commenting on the outlook for the Group, Mr Daly said:

“In the second half the Group will be cycling less challenging sales performance last year, particularly Kathmandu in the fourth quarter.”

“Improving Kathmandu sales performance is our immediate priority as we approach the key winter trading period. We expect to see progress in the second half and into FY25 as we launch new innovative products, quick to market programmes, elevated visual merchandising, increased personalisation through the recently released “Out There Rewards” and an expanded third-party brand strategy.”

“We expect the wholesale customer inventory reduction cycle to end this financial year, giving us a more positive FY25 outlook in the wholesale channel for both Rip Curl and Oboz.”

“We believe that with our portfolio of iconic global outdoor brands and leadership in sustainability, we remain a unique investment proposition and well-placed for the future.”



Investor briefing being held today at 8:30am AEDT / 10:30am NZDT

Michael Daly (Group CEO & Managing Director), and Ben Washington (Interim Group CFO) will be holding a briefing session for investors and analysts at 8:30am AEDT / 10:30am NZDT today (Tuesday 19 March).

Please attend the meeting by following this link: www.virtualmeeting.co.nz/kmdhy24

You may also dial one of the numbers below and provide the conference ID 7772131 to the operator to listen to the meeting.

Australia Toll Free: 1800 571 226
New Zealand Toll Free: 0800 450 012
France: +33 800 943355
United Kingdom: +44 800 358 0970

The webcast will be available on the KMD Brands investor website following the call.

This announcement has been authorised for release to NZX / ASX by the Board of Directors of KMD Brands Limited.

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For further information, whether an investor or media enquiry, please contact:
enquiries@kmdbrands.com

